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GOVERNMENTAL MACHINERY OF WARTIME CONTROLS AND ITS RELATION TO POSTWAR PROBLEMS

By

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Ottawa, 1942

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WARTIME ECONOMIC CONTROLS

AND

CONTROLS FOR THE TRANSITION TO PEACE

-- by Maxwell Cohen.

WARTIME ECONOMIC CONTROLS

AND

CONTROLS FOR THE TRANSITION TO PEACE

Scope of the Memorandum

Within these few pages an attempt will be made to describe some of the more crucial economic controls that have been introduced into the Canadian economy for war purposes, to adjudge, in certain cases, the effectiveness of enforcement and to suggest some implications which these controls now may have for speculative thinking concerning some of the transition problems that may arise out of an attempt to readjust our war economy to conditions of peace.

PART I

1. The main Objectives of Economic Control in Wartime.

Upon the outbreak of hostilities in September, 1939, the Government of Canada was faced with several immediate economic problems. First, it was vital to prevent any panic in the price and supply of consumer's goods. Second, it was necessary for manufacturers to have available to them such supplies as were immediately required for the quickly-mobilizing armed services, particularly the Army. Third, Canada's exchange and capital position had to be protected against any frantic attempt by holders of Canadian capital to effect large-scale withdrawals or to speculate with Canadian dollars in the money market. Fourth, preparations had to be made for some long-range policy which would look towards the shifting of much of the national productive effort from carrying on with peace-time commerce to the making of war supplies.

It will be remembered that in the first eight months of the war the contribution to the Allied cause expected from Canada was limited to a few manufactured items such as shells, explosives, motor vehicles, small arms and machine guns; to extensive quantities of food-stuffs; to the initial commitments of two Divisions for overseas service; to the Commonwealth Air-training programme; and to a slow progress toward some Naval self-sufficiency for Canadian waters.

That picture changed rapidly after France collapsed and the German blitz had put almost the whole of Western Europe under the Nazis. The threat of invasion and of destruction to industry from the air increased Great Britain's dependence for all types of military supplies upon the Dominions and the United States. Moreover, even without that threat, it was abundantly clear that the British industrial potential was not, in itself, enough to meet the requirements of an active offensive in war -- in the far off future -- against both Germany and Italy, and some day against Japan, on a European, Middle-Eastern, and Far Eastern Front.

These changes in the requirements for Britain's military policy after June of 1940, as well as the more realistic approach to the volume of materials needed for global warfare, altered radically the Canadian war-making policy. It was necessary now for Canada to become a second arsenal, ready and able to ship in a continuous stream scores of weapons which required the utmost skills, new and highly intricate machinery and great amounts of strategic materials. To put such a programme into effect required a change in economic policy. Canada had to be prepared to divert, in increasing amounts, her available resources in skills, labour-power and plant facilities to the manufacture of a wide variety of weapons. To effect that diversion, to control its direction so as to obtain the specific war supplies that were sought, meant that new and more detailed economic controls had to be set up. Thus the specific objectives of that control became:

(a) to reduce the consumption of those goods and services, the production of which would compete with the manufacture of guns, tanks, planes, corvettes and all the other intricate weapons now being made in Canada;

(b) to divert deliberately to war production, by prohibition, by rationing and by allocation, such labour, materials, plant facilities and stocks on hand as may have been necessary to obtain the maximum production, delivery and importation of war supplies;

(c) to reduce to a minimum any wastage and non-essential use of labour and materials;

(d) to co-ordinate industrial facilities, so as to obtain the quickest and most efficient production of these new weapons, and at the same time to preserve a decent level of goods and services for civilian consumption in order to have that psychological minimum necessary to preserve national morale and efficiency;

(e) to prevent any dissipation of Canadian balances of vital United States funds, and to prohibit importers and exporters from in any way dealing with enemy-controlled countries or enemy-controlled traders in any part of the world;

(f) to prevent any inflationary price-wage movement from damaging the economy as a whole as well as war production and the consumer position in particular.

II. Some of the Economic Machinery Devised to Achieve Those Purposes.

This report, for obvious reasons, cannot give the full story of Wartime Controls. It can only select those devices that hold the key to our war production and civilian consumption problems and deal, at best, very briefly with the issues they present. But it is of great importance that any study of this character should try to give the broader setting in which the more limited analysis takes place. For these reasons, there now follows what may be described as a functional outline of the various Departments, Boards and Committees whose duties move anywhere from the periphery to the centre of wartime economic issues. This analysis is based upon a study prepared for the Bureau of Public Information of the whole of the Federal wartime economic machinery, as of Nov. 15, 1941. To assist the reader with the present report this Bureau study is now submitted as a general supplement to Part I of the Report providing the essential details of the authority and operation of practically all bodies exercising economic functions for purposes more or less directly related to the war.

Functional Analysis of Wartime Economic Controls.

I. The Formulation of Major Economic Policy and Coordination with the United Kingdom and the United States.

(a) General Economic Policy.

i. The War Committee of the Cabinet.

ii. Other Cabinet Committees.

iii. The Advisory Committee on Economic Policy.

(b) Supplementary Economic Policies.

i. The Department of Munitions and Supply.

ii. The Wartime Industries Control Board and Crown Companies.

iii. The Foreign Exchange Control Board.

iv. The Departments of Finance, National Revenue and the Bank of Canada.

v. The Department of External Affairs.

vi. The Wartime Prices and Trade Board and its Administrators.

vii. The Department of Trade and Commerce.

viii. The Department of Labour, the Inter-Departmental Labour Co-ordination Committee, the National War Labor Board.

ix. Agricultural Supply Controls.

(c) Economic Cooperation Between Canada and the United Kingdom.

i. Regular Diplomatic Channels - The Department of External Affairs and the Dominions Office.

ii. The Department of Finance and British Treasury.

iii. The Bank of Canada and the Bank of England.

iv. The Foreign Exchange Control Board and the Bank of England.

v. The British Supply Council in North America and the British Purchasing Commission.

vi. The Department of Munitions and Supply, the United Kingdom Technical Mission and the British Admiralty Technical Mission.

vii. Canadian Administrators and Controllers and the British Ministries of Supply and of Food.

viii. The British Ministry of War Transport and the Canadian Shipping Board.

ix. Agricultural and Fish Supply Boards and the United Kingdom Ministry of Food.

1. The Bacon Board.

2. The Dairy Products Board.

3. The Special Products Board.

4. The Agricultural Supplies Board.

5. The Canadian Wheat Board.

(d) Economic Cooperation Between the United States and Canada.

i. The Department of External Affairs and the United States Department of State.

ii. The Department of Finance and the U.S. Treasury.

iii. The Bank of Canada and the U.S. Federal Reserve Banks.

iv. The Department of Munitions and Supply, the Wartime Prices and Trade Board and corresponding U.S. Government Agencies.

v. The Lease-Lend Program, the Hyde Park Declaration, War Supplies Limited, and the Joint Economic Committee, the Joint Committee on Production.

vi. The United States-Canada materials Coordination Committee.

II. Diversion of Labour, Materials and Facilities to the Production and Importation of War Supplies.

(a) Taxation, Loans, Savings and General Fiscal Policy.

i. The Department of Finance and the Bank of Canada.

ii. The Department of National Revenue.

iii. The War Savings Committee.

iv. Miscellaneous Savings Devices.

(b) Foreign Exchange Control and the Foreign Exchange Control Board.

(c) Priorities.

i. The Director-General of Priorities and Controllers in the Department of Munitions and Supply.

ii. The Canadian Shipping Board.

iii. The Transport Controller.

iv. The Minister of Fisheries and the Canned Salmon Scheme.

v. Administrators in the Wartime Prices and Trade Board.

(d) Rationing and Allocation of Supplies.

i. The Controllers in the Department of Munitions and Supply.

The Steel Controller.

The Timber Controller.

The Oil Controller.

The Metals Controller.

The Machine Tools Controller.

The Power Controller.

The Ship Construction and Repairs Controller.

Motor Vehicle Controller.

The Controller of Chemicals.

The Transit Controller.

The Controller of "Supplies".

ii. The Wartime Industries Control Board.

iii. The Wartime Prices and Trade Board.

The Wool Administrator.

The Coal Administrator.

The Sugar Administrator.

The Hides and Leather Administrator.

The Oils Administrator.

The Rentals Administrator, etc.
(About 90 administrators now).

iv. The Dairy Products Board, the Special Products Board, the Bacon Board, the Canned Salmon Scheme of the Department of Fisheries.

(e) Labor Supply Controls and Policies.

i. The Department of Labour.

ii. The National War Labour Board.

iii. The National Labour Supply Council.

iv. The Interdepartmental Labour Coordination Committee and the War Emergency Training Programme.

v. Employment Service of the Unemployment Insurance Commission.

vi. The Department of National War Services and the Wartime Bureau of Technical Personnel.

vii. The Industrial Disputes Investigation Act.

viii. The Director of Labour Relations in the Department of Munitions and Supply.

(f) Foodstuffs and Agricultural Supply Control.

i. The Department of Agriculture.

ii. The Agricultural Supplies Board.

iii. The Bacon Board.

iv. The Dairy Products Board.

v. The Special Products Board.

vi. The Canned Salmon Scheme;)
The Canned Herring Scheme;) - Fish Controls.
The Canned Lobster Scheme;)
and the Salt Fish Board)

(g) Import and Export Control.

i. Import Advisory Committee.

ii. Export Permit Branch.

III. Coordination and Expansion of Facilities for the Purchase and Production of War Supplies.

(a) The Department of Munitions and Supply.

i. Origin and Development and Powers of the Department.

ii. Functions and Methods of the Department.

(1) Administration.

(2) General Purchasing.

(3) Industrial Planning and Coordination of Facilities.

(4) Government Capital Assistance and Wholly-owned Companies.

Allied War Supplies Limited.

Citadel Merchandising Company Limited.

Atlas Plant Extension Company Limited.

Fairmont Company Limited.

Melbourne Merchandising Limited.

Plateau Company Limited.

Wartime Housing Limited.

Wartime Merchant Shipping Limited.

Federal Aircraft Limited.

National Railways Munitions Limited.

Research Enterprises Limited.

Small Arms Limited.

War Supplies Limited.

(5) Economic Research, Statistics and Planning.

(b) The Department of National War Services.

(c) The Canadian Shipping Board and the Transport Controller.

(d) The Agricultural Supplies Board.

(e) Wartime Prices and Trade Board.

IV. Control and the Protection of Consumers.

(a) The Wartime Prices and Trade Board.

i. Powers of the Board.

ii. Supply Controls.

iii. Price Fixing.

iv. Price Policing.

v. Instalment Buying.

vi. Licensing.

vii. The Price Ceiling.

(b) The Combines Investigation Commission.

V. Economic Warfare.

i. Import and Export Control.

ii. Trading With the Enemy Regulations.

VI. The Coordination of this Machinery.

VII. Post-War Reconstruction. - through the Committees on Rehabilitation and Reconstruction.

It will not be possible here to deal with any more than a few of the major devices outlined above.

(a) The Formulation of Major Economic Policy.

At the centre of any such programme for intensifying the variety and extent of Canada's industrial potentials for war must be the need to shape a consistent and underlying economic policy, so far as the changing requirements of war make that consistency possible. That problem, in practice, can only be dealt with by the real source of wartime power - the Cabinet. And for all practical purposes, such policy now is initiated by the War Committee of the Cabinet, with the Prime Minister as chairman. Other members consist of the three Defence Ministers, and the Ministers of Mines and Resources, Finance, Munitions and Supply, Justice and the Government Leader in the Senate. Theoretically, the War Committee considers what are to be Canada's commitments to her Allies, her own military policy and what effect that policy and those commitments will have or should have on the economy of Canada and the personal comforts and living habits of Canadians. In practice when discussing these larger questions, the War Committee often calls in technicians from a given Department when their technical information is required in formulating a policy or making a decision. The Committee is assisted by the work of other Committees of the Cabinet. Only three of these committees seem to have functioned in recent months, however, the Committee on Prices and Labour Supply on Man-power and on Post-War Reconstruction. The reason for the activity of these committees has been the insistence of certain of the Ministers to have their problems aired with and discussed by their colleagues before these questions reach the full Cabinet.

The chief source of technical advice which the War Committee receives on economic matters is from the Economic Advisory Committee to the Cabinet. This Committee is composed of senior civil servants such as the Deputy Ministers of Finance, Trade and Commerce, the Governor of the Bank of Canada, the Under Secretary of State for External Affairs, the Deputy Minister of Agriculture and several others of high rank. They do studies, on their own initiative, of many questions, and also prepare memoranda in response to requests from the War Committee or from any Cabinet member. It is generally

believed that the Economic Advisory Committee has performed a useful co-ordinating service, but since the War Committee and the Cabinet as a whole would not tolerate the existence of a "competing" cabinet, the Economic Advisory Committee has remained a rather ad hoc agency, limited in its scope and impermanent in its day to day influence. Although it meets periodically, it has no secretariat of its own and hence no real continuity.

It is difficult to know the economic policies that the Economic Advisory Committee seems to have been formulating since its discussion and problems are secret and leave no documentary material of a public nature.

Among certain informed students of these matters, however, it is believed that the Committee has been responsible for the advice which led ultimately to the price and wage ceilings.

But if the Committee is the Central source of the Government's more fundamental economic advice, then to the extent that that advice is reflected in certain basic elements in the Administration's present economic policy, such advice may not have been as realistic as the demands of total war should have made it.

The persistent problem of industrial total war is the task of diverting the resources of the nation to war production, through (1) progressive conversion of plant and materials to the production of war supplies, (2) the creation of new facilities and sources of raw materials for the manufacture of war supplies, (3) proportionately heavier pressures on the standard of living in order to make that conversion physically possible, assuming that technelogically it is impossible to supply "normal" goods and services and yet produce all the tanks, guns and planes of which the country is capable -- assuming again a Physiological minimum of certain of these goods and services.

An examination of the rate of Canada's conversion, measured by the persons employed in non-essential industries, the volume of retail buying that still persists and the continued production and availability of many classes of relatively non-essential goods as well as services, all suggests that that rate of conversion to war production is less than it might have been. It took almost two and a half years of war before automobiles, frigidaires, radios, rubber tires and scores of similar supplies requiring

strategic materials and skilled labour substantially were restricted or eliminated from competing with the materials, labor and facilities needed for an increasing rate of war production.

In two and a half years the purchasing power of Canadians has risen from a 1939 national income of about 3.8 billion to a 1941 income of 6.1 billion (before making necessary adjustments for changes in the price level.) Yet fiscal policy still attempts to operate, on one side with fixed prices and wages, and on the other with voluntary loans, war savings and heavier taxation, and their resulting inequalities. Such devices, to reduce purchasing power and to divert resources thus freed for certain use to war production, as compulsory savings, with family allowances, capital levies to draw off saved cash that can and will be used to buy consumer goods, the rationing of spending money for certain key personal supplies, and other methods have not yet been suggested publicly as likely to be used in the near future.

That tardiness is making the quickest change over in industry from peace to war with its radical effects upon living standards may be due, in part, to the kind of technical advice that the Economic Advisory Committee may have been giving to the Cabinet. But there is, of course, no documentary evidence, whatever, of a public nature, to prove that such has been the case.

III. Supplementary Economic Policies.

In addition to some of these major questions, to which the Cabinet and the Economic Advisory Committee pay attention, there are supplementary economic problems and here several agencies of Government formulate various degrees and kinds of economic policies:

(a) The Departments of Finance, National Revenue, External Affairs and the Bank of Canada.

Operating within the "known" major policies set out by the War Committee, these four bodies are today the most influential in working out the supplementary questions of fiscal policy and monetary policy. The Department of Finance is the financial advisor to the Government; the Department of National Revenue administers the Government's tax programme and collects its revenue; the Department of External Affairs maintains an

over-all interest in the Canadian economy, with particular reference to its economic relations with the U.K. and U.S. Finally, the Bank of Canada, as the Government's banking agent, offers technical advice, places at the Government's disposal its well developed research facilities, and now markets all Government loans.

All of these departments, and the Bank, have much to do with influencing the Government's war-time spending, tax and loan policies.

(b) The Foreign Exchange Control Board.

This Board, through its control of all exchange dealings and all international capital transactions, keeps a day to day check on the movement of Canadian dollars and capital to or from Canada. Since the Board has for its members representatives from External Affairs, Trade and Commerce, National Revenue, Agriculture and the Bank of Canada, much of its policy is the product of a point of view held by many Departments. Its really basic job is to advise upon methods, and to execute policies that will conserve Canada's balances of U.S. dollars.

(c) The Department of Munitions and Supply.

This Department has two chief functions:

(i) To act as a central purchasing agent to the armed services, as well as for the United Kingdom's and all other purchases in Canada, and

(ii) to plan for the maximum use of Canada's facilities and resources in the production of war weapons.

In carrying out the second function the Department uses a series of 13 controllers of special supplies, such as steel, oil, metals, etc., as well as production and planning branches and sections which attempts to co-ordinate and to extend the facilities for the manufacture of all necessary war supplies.

This Department is the largest single buyer in Canada of supplies of many kinds. To that extent it is able to often set its own price and control the price policy in a given industry. Thus, since the price ceiling, Canada has a two price Policy -- that used by the Department of Munitions and Supply (with the Wartime Prices and Trade Board's approval) and the regular "ceiling". Similarly, the rationing and priority powers of the Controllers gives them a wide authority to establish supply policies. These powers already have been used extensively to regulate oil, steel, metals,

electric power, motor vehicle production, household and office supplies, etc.

Often it seems that many of these powers have been used with some diffidence where the Controller himself came from the industry to be regulated. This is no reflection on the integrity of the Controllers, but only indicates a possible bias that naturally would be present in their approach to a severe and compulsory change in the peace-time business practices of the industry to which they once belonged. In general, the conversion of Canadian Industry to war production has been slower than it should have been after two years of blitz warfare.

(d) Wartime Prices and Trade Board.

This Board has power over the prices of all supplies of every kind and now enforces the price "ceiling" and controls as well the supplies "of goods and services" not already regulated by the Department of Munitions and Supply.

The Board moved cautiously up to October 18, 1941. On the whole its work up to that time with sugar, rentals, coal, fish and vegetable oils, had been effective, and, generally it had a good influence in discouraging any too-rapid price tendencies among retailers and wholesalers. The price ceiling galvanized the Board into new and extensive activity, with a personnel that up to March 1st has numbered close to 1700.
A fuller discussion of its economic character is to be found in a later section of this report.

(e) The Wartime Industries Control Board.

This Board is composed of all the Controllers in the Department of Munitions and Supply. Up to August 28, 1941 it had no power in itself and acted as a consultative group, where the supply and price questions affecting one Controller's industry were discussed and considered in relation to the fields governed by the other Controllers. Since August 28th, the Chairman of the Board is the Director-General of Priorities and he had a kind of veto now on the individual decisions of each of the Controllers.

For some strange reason the Wartime Industries Control Board has not yet begun to function as a Board in a real sense. Its orders are orders of the Controller and the Board. But while these are made, probably, after consultation among the members, they are enforced by each individual

Controller. No integrated Board organization has been set up with its own staff. One Secretary and two or three assistants try to carry out the secretarial and information work of the Board.

The statistical and planning functions of the Board are negligible, although individual Controllers do have statistical records of varying degrees of quality. For all practical purposes the Wartime Industries Control Board does not yet appear to have progressed beyond the stage of an intra-departmental Committee of the Controllers, chairmaned by the Director-General of Priorities.

(f) The National War Labour Board, the National Labour Supply Council and the Inter-Departmental Labour Co-Ordination Committee.

The National War Labour Board is to have control, not only over wage and bonus policy administration, but in it is now to be centralised also the conciliation service of the Department of Labour as well as the enforcement of the Industrial Disputes Investigation Act. Since the Minister of Labour is to be chairman of the Board, it is clear that in that field of labour policy the work of the Board is of the utmost importance. It ties in the work of the nine regional Boards under the Chairmanship of each of the Provincial Ministers of Labour.

The Inter-Departmental Labour Co-ordination Committee consists of representatives from various Departments such as Labour, Trade and Commerce, National Defence and Munitions and Supply. Its function is to attempt to estimate the labour demands of war production, the available supply of skilled, semi-skilled and unskilled labour and to work out some formula of allocation of man-power between the needs of industry and the demands of the armed services.

To the extent that it has views about the labour supply in Canada and the needs of war industries, its recommendations will have a considerable effect on military policy and on the development of labour-training schemes.

There seems to be an impression in informed circles that the Committee did not always function with the thoroughness which was at one time expected of it. Through the Bank of Canada it sponsored a study of the expected labour needs of wartime industry in Canada and a sub-committee of its own has recently made a survey of labour supply and requirements.

(g) The Agricultural Supplies Board, The Bacon Board, The Dairy Products Board and the Special Products Board, and the Canned Salmon and Herring Schemes.

These bodies were set up to handle foodstuff problems which arose out of the increasing demands of the United Kingdom for bacon, cheese, butter, eggs, fish and certain fruits. The first of these Boards is simply a directive agency to encourage increased production in Canada, although it has itself shipped certain supplies such as flax fibre seeds. The latter four are in effect "purchasing agents" for the British Government and they are largely instrumental in setting the export price for cheese, bacon, butter, eggs, salmon, herring and fruit. To that extent they have had, in a negative way, important influences on the prices and the volume of supplies of these products on the domestic market.

IV. Economic Policy and Collaboration with the United Kingdom and the United States.

The war has brought an intensification of the relations between Canada and the United Kingdom, on the one hand, and Canada and the United States, on the other. It is safe to say that no major economic policy affecting the transition of the Canadian economy from peace-keeping to war-making now can be made without some substantial degree of collaboration with the United Kingdom or the United States.

The machinery of that collaboration with the United Kingdom takes the form of

(i) regular diplomatic channels by External Affairs, the Dominions Office, Canada House in London, and the United Kingdom High Commissioner in Ottawa. This last-mentioned now has a financial advisor attached to its staff to deal with the multitude of economic questions.

(ii) The relationship between the Canadian Shipping Board and the British Ministry of War Transport, through which all allocations for space to be used by Canadian cargoes are made; the Bank of Canada and the Bank of England, who maintain close relations as the financial agent of each; the British Supply Council in North America which co-ordinates British and Canadian needs in the United States; the Bacon Board, Dairy Products Board and Special Products Board which act as agents of the British Ministry of Food in Canada, and the Department of Munitions and Supply which is the United Kingdom purchasing agent in Canada for war supplies exclusive of food.

It is the general impression that the machinery of economic collaboration between the United Kingdom and Canada is quite well developed. It has, of course, been intensified by the United Kingdom's dependence on Canadian co-operation in the repatriation scheme, and the immense programme

of United Kingdom purchases from, and capital assistance to, Canadian industry, most if not all of which is in the form of or will become unused and unusable sterling balances or outright gifts by Canada to the United Kingdom.

Much remains to be done, however, by the United Kingdom officials in Canada with regard to the quality of the statistics maintained by them on those many matters. It is difficult to get any figures on their purchasing activities before they were taken over by Munitions and Supply.

In the case of the United States, this collaboration not only operates through External Affairs and the Department of State with their respective Legations, but also through, (1) the liaison of the Department of Munitions and Supply in Washington, an office of over 200, (2) the operation of the Hyde Park Declaration, through the establishment of War Supplies Limited in Washington, -- which sell surplus Canadian war material to the United States, -- and the creation of the two Joint Committees on Economic Co-operation and Production, (3) the United States-Canada materials Co-ordination Committee, which co-operates on the export-import and conservation and production of strategic materials, (4) direct contacts between various Government branches here and opposite numbers in Washington, as well as co-operation between the Department of Finance and the United States Treasury, on the one hand, and the Bank of Canada and the Federal Reserve Board, on the other.

With huge imports of United States materials and finished products indispensable to Canada's war production, this dependence of Canada on the United States is the key to the need for the closest economic collaboration.

It is believed that the Materials Coordination Committee has so far been one of the most active of all the new agencies of collaboration, but, of course, the Joint Economic Committee and the Joint Production Committee have not really had time to fully develop.

The real function of the Joint Economic Committee is to examine into the specific problems that arise out of the economic dependence of the two countries in wartime, and to lay the reasearch foundations for a substantial degree of post-war economic collaboration.

The first part of this program is being carried forward through periodic meetings of both sections of the Committee and the preparation

of special studies covering shipping, tariffs, and other specific matters. The second is a much longer range programme and remains as broad as possible until the time is ripe for a more immediate approach to these questions.

The Joint Production Committee is concerned primarily with the engineering and production problems common to the munition programme of the two countries. So far, it has worked out technical solutions to production difficulties on small arms, and is attempting similar solutions with respect to other key war supplies where mass production methods are being developed.

The Hyde Park Declaration and the establishment of War Supplies Limited intensified the relations between the two countries. Theoretically War Supplies Limited was to sell surplus stocks of material, which sales were to be credited to Canadian balances in the United States. Also, all Canadian purchases, that were components to be re-shipped to Britain as part of an end-product, were to be sold to Canada on a lease-lend basis.

The optimism that had hoped for substantial increases in Canada's balances of United States dollars through these two methods has not yet been justified. The Canadian surpluses have been far less than at first estimated in such things as guns, explosives, shells, minesweepers, etc., and the bookkeeping problem and rodtape difficulties surrounding lend-lease shipments to Britain via Canada have been found to be too complex. Thus Canadian purchases even for goods that are ultimately to be part of a gun or a tank to be shipped to Britain, are being paid for in cash in most cases at the present time.

V. <u>The Diversion of Labour and Materials to the War Effort</u>.

The basic need in wartime Canada which will enable the Canadian war potential to reach its highest point, is to shift with ever-increasing rapidity the plant, resources and labour-power from the production of wholly civilian supplies to the making of guns, planes, shells, tanks, etc. It is not the purpose of this memorandum to discuss the mechanics of this shift in detail. The above list of boards, committees and departments outlined the machinery employed. In brief, however, the techniques to produce that diversion are as follows:

(a) <u>The Reduction of Civilian Consumption, through taxation, loans and savings</u>.

These policies are formulated largely by the Department of Finance,

with the advice of the Bank of Canada, and it is no secret that increasingly the research staff of the Bank is having a share in the formulation of fiscal policy. Canada's wartime fiscal policy would seem to be aimed at the following objectives:

(1) Since, in terms of physical use of our resources, we really pay for the war as we go along, the problem of fiscal policy is to provide out of current national earnings as big a share of the government's cash needs as is possible.

(2) The two most satisfactory approaches to that objective, are through taxation and war savings.

(3) War Loans are useful for getting at accumulated savings; but for example in the recent Victory Loan, out of billion dollars loaned, perhaps only $400,000,000 represents purchase on the installment plan and therefore out of current earnings - and therefore a certain curb on that part of potential current consumption.

(4) The reduction of the purchasing power of the consumer together with the need to keep the cash position of the Government equal to do its wartime buying requirements, without casting the consequent tax-burden on those who can least afford to bear it, is the real technical problem of fiscal policy. It is thus a three pronged policy, aimed at (i) curbing inflation, (ii) equality of burdens, (iii) the maintenance of the cash position of the Government.

(b) Exchange Controls.

This, of course, is the work of the Foreign Exchange Control Board.

The essential problem of the Board is to control all capital transactions between residents and non-residents and to conserve United States dollars, as well as to advise the Government from time to time on methods by which the conservation of necessary foreign exchange can be effected. It carries out such exchange control measures as the Government may thus enact.

It is the general opinion that the Board had done its work well and that by the spring of 1941 the great bulk of its activities had become thoroughly routinized and put on a simple police basis.

It is perfectly clear, however, that the main problems of the Board have to do with the maintenance of and adequate supply of U.S. Dollars. But the balance of payments between the two countries, being what it is, with our sterling credits not usable in N.Y., there thus can be no real solution to that continuing adverse balance. But it can be dealt with in part by further ruthless curtailing of all non-essential imports, by realizing on Canadian assets in the U.S., or by borrowing in the U.S. market. Of the three the last seems to be the policy that ultimately may be most desirable.

(c) Priorities.

Through the Director-General of Priorities in the Department of Munitions and Supply, as well as the Canadian Shipping Board, the War-time Prices and Trade Board and the Transport Controller, machinery already exists to regulate all types of material used in the industrial process, as well as collateral needs such as power, transportation and shipping space. The plain fact is, however, that while a whole series of priority ratings has been issued from time to time by the Director-General of Priorities of the Department of Munitions and Supplies, no overall formal body of priority regulations has yet been promulgated, although the steel Controller has issued regulations of his own. It is believed that the reason for this is to be found in the reluctance of the Director and the Minister of Munitions and Supply to enter upon a formal scheme before it is absolutely necessary. In their opinion that time has not yet come for such a step. The result is that priorities operate today in Canada through ad hoc decisions of the Priorities officials. Through their familiarity with production problems as well as with their knowledge of the sequence in the importance of supplies required by the Armed Services, they render decisions to have produced first what they believe is first needed. It is mostly informal and, it seems to have worked. Indeed, U.S. experience for the last year suggests strongly that a formal and comprehensive priority system may prove far too cumbersome for efficient operation.

(d) The Rationing and Allocation of Supplies.

The Controllers in the Department of Munitions and Supply have power to ration or allocate supplies under their control. These include among others timber, petroleum and petroleum products, steel, motor vehicles, power, urban transportation, chemicals and other "unclassified supplies". In several cases the Controllers have gone in for informal rationing or allocation, where there was threat of a shortage. The first formal rationing scheme to come into operation is gasoline rationing on April 1st, 1942. It is generally believed, however, that on the whole the Controllers have not undertaken, as yet, much detailed planning or research with respect to the economics of their problems. In most cases, until recently, rudimentary statistics were kept by the Controllers, but these would now seem to have improved considerably. The recent re-organization

of the Wartime Industries Control Board may be leading to a more organized approach towards their planning and research problems.

The Wartime Prices and Trade Board has powers over the disposition of all "goods and services" not otherwise controlled by the Department of Munitions and Supply or other agencies, and it has a veto power over all prices, wherever fixed, and it therefore controls the price policies of the Controllers in Munitions and Supply. Thus, it has power over every aspect of civilian needs and over many items related to war industry. Here, too, no formal priority or allocation orders have as yet been made. Neither have any rationing schemes been put into effect, but strict control exists over about 95 types of supplies in cases such as rentals, hides and leather, wool, sugar, fish and vegetable oils, canned goods, clothing, jewellery, etc., and 4 score other commodities in wholesale and retail form. From time to time, whenever a scarcity problem has arisen, the Board has not hesitated to deal directly with industry, so as to make certain that a given commodity reaches a given point where it is required. For example, in the early days of the war, when sugar conditions gave rise to a temporary run on retail and wholesale stocks, the Board virtually took charge of the industry until the run eased off.

The basic problem of the Board at the present time is to enforce the price ceiling. On the policy side it sets the price or rate for goods and services by reference back to the basic period September 15 to October 11, and it modifies that basic rate after consulting with the industry concerned, if modification is desirable. But that modification is by far the exception. The enforcement of the Board's powers is done through a licensing system whereby all manufacturers, jobbers, brokers and dealers, etc., have been licensed and through a system of regional enforcement officers. Indeed the whole process has been de-centralized by setting up regional agencies to deal with prices, certain foods, clothing enforcement, etc. There are thus miniature Wartime Prices and Trade Boards in almost every major city in Canada.

(e) Agricultural and Fish Controls.

The Bacon Board, the Dairy Products Board, the Special Products Board and Agricultural Supplies Board have already been discussed. It should not be forgotten, however, that in addition to performing services as purchasing agents for the British Ministry of Food, the first three, as

well as the last, conduct widespread programmes to encourage the reduction of Canadian consumption in such supplies as bacon, cheese, butter and whatever other items may be needed by the United Kingdom and whose sale and export will tax the Canadian supply. Except indirectly, through direction to packers and others, and through commandeering supplies for Britain, no rules have as yet been made which would formally reduce such consumption in Canada and it is doubtful if that reduction can be effective without the use of such formal controls.

Through the Canned Salmon Scheme and the Canned Herring Scheme the bulk of the Canadian catch in these two products is going to the United Kingdom, and by the summer of 1942 there should be little or none of these supplies in Canada. These schemes are administered by the Minister of Fisheries.

(f) Labour Supply.

The diversion of labour from civilian and non-essential production to war industry involves many delicate operations. No formal machinery has yet been set up to deal with the problem of this shift. A National Labour Supply Council was set up to study the labour problem in war time and to represent in that study the various points of view of business, labour and government. Its real function was to advise the Government as to what is the best common thinking among these interests on the growing problem of labour supply and the use of labour-training schemes - but its work has been brought to a close by the creation of the National War Labour Board.

Further labour controls are to be found in the application of the Industrial Disputes Investigation Act to all war industries -- any industry directly or indirectly executing a war contract. The recent amendment preventing minority strikes is a further instance of the extension of authority over the free labour market and collective labour activity.

More recently the establishment of a National War Labour Board, with its enforcement of the wage ceiling and the cost of living bonus and its probable taking over of the administration of the Industrial Disputes Investigation Act, has centralized more than ever in a single agency some of the key wartime problems of labour administration. There appears to be good reason that a cautious but more encouraging labour policy may follow from the personality of the present Minister, who is also Chairman of the Board.

The real problem of the Board and the Department will come up if

and when it takes on the man-power allocation problems that will present themselves with any general "conscription" of the country's labour force.

(g) Import and Export Controls.

The war effort has required drastic changes in import and export policy. Its focus -- outside of economic warfare matters -- is now to (1) prevent exportations of supplies required in Canada, (2) prevent importation of supplies prohibited or unnecessary and so declared in legislation, and (3) to carry out the purposes of the War Exchange Conservation Act. There seems to be some doubt whether the import and export policy as it now operates has gone to the limit of examining its possibilities as a method of helping the Canadian economy to shift from peacetime commerce to a wartime basis. But there are political considerations here which have prevented a clear-cut policy from being established, particularly in the case of imports from and exports to the United States.

VI. The Coordination and Expansion of War Production Facilities.

A war-making economy must not only use those facilities which it already has, to turn out tanks, guns, destroyers, etc., but it must expand these facilities and increase the variety and intensity of their production. To get that job done has been the responsibility of the Department of Munitions and Supply. Dovetailing into its purchasing functions are its statutory duties to mobilize and co-ordinate the industrial facilities of Canada. It has carried out these duties by taking over former privately-owned plants, by encouraging sub-contracting among small machine shops and factories, by going in for an immense capital assistance programme to private industry, by building its own plants, by directing the conservation of vital supplies and by co-ordinating and by attempting to "concentrate" the various facilities in a given industry assigned to produce special items, such as tanks or planes.

After two and a half years of war the purchasing side of the Department's functions are well organized, but a great deal has yet to be done in working out the answers to the quite serious production problems which face the filling of many important orders. Only in one or two cases has the Department had the desire, as yet, to risk a major conflict with industry by eliminating the less-efficient plants and turning over their equipment and labour to more efficient ones. It may not be long, however, before such moves are taken frequently.

New techniques of industrial control have been found in the operation of the capital assistance programme, where many of the plants financed with government funds are operated by boards of directors having members from private industry and government. Again, the Government is learning that it can itself very successfully operate new industries set up to manufacture highly specialized supplies, such as optical goods and small arms.

On the whole, it remains to be seen how far the present organization of the Department of Munitions and Supply is adequate to the task of large-scale plant co-ordination and industrial planning. There is reason to believe that, despite the recent re-organization of the Wartime Industrial Control Board further steps will have to be taken to focus these coordination powers to that effective action against less efficient plants can quickly be taken.

VII. Consumer Protection and Price Policies.

To the Wartime Prices and Trade Board has been delegated the whole field of price control and consumer protection. Its powers began with only necessaries of life, but now cover all "goods and services" not otherwise delegated, and the enforcement of the "price ceiling". It has a complete veto of the prices established over any type of supply by any other government agency -- Federal, Provincial or Municipal -- having price-fixing powers. The Chairman of the Board is a member of the Wartime Industries Control Board, and is the Deputy Governor of the Bank of Canada as well as the alternate chairman of the Foreign Exchange Control Board. His colleagues come from the Department of Agriculture, the Combines Investigation Commission, the Commissioner of Excise, the Wartime Industries Control Board, the Department of Trade and Commerce and the Department of Finance. In general a consumer point of view prevails at the Board, and a vigorous anti-inflationary attitude underlies the Board's ideas of its functions. At the same time, the Board is compelled to reconcile its duty to prevent price rises with the need for curtailing civilian consumption. The Board, therefore, may be faced with the need to enter the field of studying the problems of non-essential production and to encourage "voluntary" reduction in the consumption of many civilian supplies, where for psychological or administrative reasons, rationing may not be used as a curtailing technique.

It has been seen that the Board operates in many matters, through about 90 administrators. These administrators at first did not issue their

own orders. But they do so now. In theory the Board is supposed to pass on to the Combines Investigation Commission any evidence of illegal collaboration by producers or distributors and, in this way, it is hoped that a check will be maintained on excessive business collaboration, although, in part, that collaboration may have been encouraged by the price stabilizing policies of the Board itself. It is difficult to believe that this liaison has worked to any very great extent. Indeed the work of the combines staff is now almost exclusively the work of the Board.

VIII. Economic Warfare.

Through the Export Control Branch and through the Import Control Committee a close check is maintained on all applications for licenses to import or export goods to or from Canada. These licenses, at the same time, operate to ensure that exports or imports do not in any way benefit countries or firms under the control of or having close relations with the enemy. Moreover, the controls can prevent the enemy from indirectly receiving supplies although they may have, in the first instance, been shipped to a neutral country. All applications for permits now centre in the Export Control Branch. In these import and export controls, the Foreign Exchange Control Board has a considerable voice and advises on policy. These controls also operate to enforce the black-list -- more strictly known as "The Trading with the Enemy Regulations". The black-list is the result of intimate collaboration, between Canada and the United Kingdom, on the question of enemy-controlled and enemy-connected firms in every part of the world. It is probable that the United States now shares in these deliberations since it now also has established a black-list of its own.

IX. How Well Coordinated are All of these Controls?

It is not unfair to say that no "blueprint" of the social engineering problems raised by the economic needs of Canada's war effort has been drafted, whatever a "blueprint" may mean. Indeed, it may be questioned whether such an over-all clear-cut and simplified view of the transition from peacetime commerce to a wartime industry is "intellectually" possible. Few people have the statistical information at any given time, and in refined enough simplicity and detail, to give them the basis upon which that over-all view can be projected.

On the other hand, without an attempt at such a view, it may not be

possible to tie in effectively the large number of varied functions which have developed out of the sheer need to have controls quickly set up to meet given problems. These controls soon outgrow many of their initial purposes and there follows often a very considerable overlapping on the part of many agencies. The best example of this loose duplication of functions was the former overlapping of the Controllers in the Department of Munitions and Supply and administrators in the Wartime Prices and Trade Board. These difficulties now seem to be largely ironed out by having the Controllers operate as administrators of the Wartime Prices and Trade Board.

A considerable degree of liaison and co-ordination does operate in Ottawa. The most important agencies to tie in the varied problems and mechanics dealing with the war economy and its controls are the War Committee of the Cabinet and the Economic Advisory Committee and the senior personnel of the Department of Finance and the Department of External Affairs. Since neither of these Committees has a secretariat to speak of, they are unable to carry on as an agency which is, in point of time, continuingly concerned with co-ordination. Indeed, the top personnel of the Department of Finance and the Department of External Affairs, particularly the two Deputy Ministers, are known to have a greater share in making basic economic policy in Canada than perhaps any two single civil or quasi-civil servants, except perhaps for the Chairman of the Wartime Prices and Trade Board and the Governor of the Bank of Canada.

The Priorities Advisory Committee helps to lend some interdepartmental quality to the difficult and delicate question of priority ratings, and in maintaining the delicate balance between Service needs and civil requirement. The inter-departmental composition of bodies like the Foreign Exchange Control Board and the Wartime Prices and Trade Board also give a more co-ordinated view of many-sided government opinion than would be possible if the agency comprised only one or two Departmental representatives. Similarly, the inter-departmental Labour Co-ordination Committee has representation from five departments and a wider inter-departmental view is likely under these conditions.

Much yet remains to be done, however, to give government policy-makers an over-all vision of the functions of the various committees, departments and boards exercising economic control, as well as to focus the main lines of that control in a more centralized authority. Of course there are many

arguments against such centralization. It is believed that Mr. McKinnon, the former Chairman of the Wartime Prices and Trade Board, and Mr. Berkinshaw of the Wartime Industries Control Board, were both of the opinion that such complete centralization was not mechanically possible, even if it were desirable. Mr. Gordon is less likely to be of that view. He is probably partial to the idea of some over-all plan to guide Canadian economic policy in war time. The nature of events and the process of converting the use of our resources for peace to war may determine that, despite the recent improvements in the machinery of co-ordination through the interchange of powers and memberships between the Wartime Prices and Trade Board and the Wartime Industries Control Board, and the centralizing of price policy, further steps may yet have to be taken at some later, and more complex stage, of our wartime economy to centralize many of the planning problems which arise out of the need to satisfy the war machine, on the one hand, and civilian consumption, on the other. Particularly better machinery of liaison must be worked out to coordinate the activities of the National War Labour Board, the Wartime Prices and Trade Board and the Wartime Industries Control Board.

Equally important as these gaps in co-ordination is the lack of some agency to dispose thoroughly of the problem of wartime requirements. There is as yet no single body or section in the Federal Government that today is analyzing, in an orderly research way, the estimated and idealized needs of maximized armed services and breaking down these needs into all the related components of materials, facilities, labour, transportation, power, etc. That was to have been the duty of the Wartime Requirements Board. Its failure to function has left a substantial void which has not yet been filled by any other agency. It would seem that until some such machinery is set up, no real answer could be given to the basic query, what is to be expected from Canadian industry and Canadian Man-power for the purposes of this war? Assuming that the Government defines its "military policy", and its "industrial policy, the next step is to translate these policies into thousands of planes, ships and guns and so many ultimate Divisions of the army, so many thousands of naval personnel and of air force requirements. Once that is done, it is possible then to translate that equipment and those military commitments into labour, materials, power, etc., and to see what such a programme means in its

demand upon our labour, power and resources. Until that is done we may not get either the sweeping imagination which makes us try to extend our converted capacity beyond any forseeable limits or the detailed analysis that gives concreteness and direction to that higher vision of the nature and extent of our war effort.

PART II

CONTROLS FOR THE TRANSITION TO PEACE

I. Scope of These Speculations.

Many lessons are bound to come from our experience with economic controls arising out of the present war. Undoubtedly we shall need all of that experience to effect, with a minimum of loss to our economy, the difficult transition from wartime control to peace readjustment, and to deal as well with the maintenance in that peace of the highest possible rate of employment and production. It is hard to believe that Canadians will be satisfied in peace time with anything less than the opportunities for employment and relative security that thousands of workers, middlemen and producers are experiencing in these "expanding" days of war.

It must be assumed that the process of maximum use of our skills, resources, equipment and managerial experience will continue unabated until the war is at an end. That intensified activity already is creating big problems for the Canadian economy. These problems broadly divide themselves into two great classes: The first class deals with the results that the economy will experience from directing the main productive forces of the nation to the making of munitions of war and subsidiary supplies; the second embraces those many issues affecting the lives of the average Canadian -- wages, prices, taxation and the production and distribution of civilian goods and related matters.

The paragraphs that follow are, however, limited solely to an estimate of the kind of administrative machinery that may be necessary to assist the Canadian economy in its passage from the intensified productivity of wartime to those "normal" commercial and industrial activities of an adjusted "peace economy". For it is in that transition that complex social and economic problems will arise, the kind of problem that needs, perhaps to quite a great degree, the assistance of a central government authority almost as much as was required for the development of wartime economic organization.

For private enterprise will have many difficulties in the uncertain days of transition. A post-war boom for it would be as bad, in the long run, as a depression, with its far-reaching processes of deflation. A boom would only accentuate the problem of the ultimate

return to some peace-time "equilibrium". While depression, with its unemployment and deflated values, would be socially dangerous and intensify the difficulties of adjusting the economy to a programme of high employment and production. Hence the great need to look at the transition period from war to peace as a key period point in any thinking that is to be done about a long-range reconstruction programme. For the need is to have that transition as reasonably stable as possible. These pages, then, are limited to a brief projection of the need for and the nature of certain of these transition-period controls. We are not here concerned with the problem of setting up any permanent system of economic regulation in post-war Canada.

II. Economic Conditions at War's End.

Any attempt to forecast the kind of controls that may be necessary, when hostilities are at an end, in order to effect a reasonably stable "transition" to peace economy, requires that certain assumptions be made about the kind of Canada we shall be living in when the last gun has been fired. That projection depends, in turn, upon the kind of a world which Canada will share, its difficulties and its problems all during that transition.

First, as to the likely position of the belligerents at war's end. Great sections of Middle and Eastern Europe, and perhaps even of Western Europe, may be industrially a shambles. Added to this destruction of plant and equipment will be vast food and other raw material production areas which for years may not have been producing the wheat, cotton or coal normally expected of them. A large part of China, Malaya, Thailand, the Phillipines, the Netherland East Indies, and even Japan itself,may be in a disadvantageous position to produce either raw materials or processed goods on a "normal" scale. So we may assume large-scale devastation, particularly in Europe, with great sections of the European and Asiatic populations producing less than their own food and other requirements.

Second, we must assume that the Allies are going to win and that the terms of peace are not the kind of terms which we have come to know the Germans would impose. We have to assume that with the peace there will come a freer exchange of "capital" with a continuation of the movement towards "regional" self-sufficiency and local industrializa-

tion which has been going on in many European, South American and Asiatic countries for the last twenty-five years. The economic ideas with which the peace-making powers will play may revolve more about the transfer of "real capital" to countries in need of new plants and developing greater degrees of local industrialization, than about the exchange of "goods and services" as such within the older concept of international trade. The effect of this changing need in international economic relations will be, perhaps, to have the United States and Britain help with the heavy machinery and skills required in South America, even though at some later period that may mean a competition in that market between new South American products and the manufactured goods from older industrial communities such as Britain and the United States. But whatever may be the fiscal, trade, capital, raw material and foodstuffs problems to be solved in the post-war world, the approach taken by the peace-makers, will in a great measure, determine the kind of approach Canada itself will be required to take towards the controls it will establish in trying to achieve economic stability at home.

III. Special Problems that may be faced by Canada at War's End.

The two assumptions made above lead to further speculation and premise-making. It may very well happen that Canada and the United States will have to provide for a few years, or perhaps several years, food-stuffs and other raw materials to Europe and to Asia, on a "relief" basis. This would require some kind of special financing mechanism by the home Government, reimbursing such "relief" sales by Canadian producers. The effect may be the same as that which now occurs when we sell to Britain on a credit or "gift" basis, with the possibility of ultimate repayment about the same as the United States experience with its loans to the Allied powers in the last war. To that extent a high level of production in butter, cheese, bacon -- perhaps even wheat -- as well as in machine tools, steel products, etc., may still be necessary after the war for European and Asiatic relief and reconstruction. If such conditions ultimately present themselves to post-war Canada, the diversion of national income to such relief or credit shipments may, for a time, be as large as the diversion now being made necessary because of credit sales to Britain.

Whether these sales or shipments are financed by loans, through Government bonds or whether they are paid for out of current tax revenues,

will depend upon the then needs of fiscal policy, as well as the charitable temper of the Canadian people. The chances seem to be quite strong that public opinion would require such shipments to be paid for by interest-bearing loans.

All of this will mean that many of the agricultural supply and other raw material controls now in force may have to be continued, although modified to meet these variations in objectives. But certainly under such conditions it would seem likely that we may have to carry on with the Bacon Board, the Dairy Products Board, the Wheat Board, the Canned Salmon and Herring Scheme, as well as with many of the collateral agricultural supply administrators now operating under the Wartime Prices and Trade Board and dealing with fish oils, woollens, flour and feeds, etc. The same would apply to the controls affecting lumber and those non-ferrous metals required industrially throughout the world, such as copper, nickel, chrome, aluminum, etc.

Connected with, and collateral to these main economic questions arising out of Canada's relations with other nations in the post-war world, are such matters as import and export controls and foreign exchange control. These are economic problems and techniques which are directly affected by Canada's general external position. In addition, however, there will be other questions dependent in part, too, upon these broader economic tendencies, but having a more specifically local or national character. Here we will find such matters as price and wage controls, rationing and allocation of raw materials and consumer stocks, the disposition of hundreds of millions of dollars of government plant and equipment built for war production, the demobilization of scores of thousands of highly-skilled soldiers, the re-employment in peace-time industry of new thousands of skilled workmen, and the disposition of the Government's share in those industries in which it has joined with private capital to produce war supplies where it has operated through the mechanism of joint directorates recruited from Government and from business.

Finally, underlining all of these intricate problems, is a basic constitutional question. For while in wartime it may have been legally possible for the Canadian Government, through the War Measures Act, to deal with every phase of the Canadian economy, and by daily Orders-in-Council to dispose of the minutest economic issues which would otherwise clearly be within the scope of provincial constitutional rights,

it will be a vastly different matter when the war is over. Assuming that many of these controls will still be necessary if we are to avoid rapid and dangerous maladjustments in the transaction period, what is to be the legal basis for any centralized action on the part of the Federal Government?

It is, of course, impossible within the scope of this short survey, to discuss all of these problems in any detail. But to the extent that some projection already has been made, we can attempt to discuss certain of them in the hope that speculation now, on the broadest plane, may, at some later time, prompt a closer study of details.

IV. HOW SOME OF THESE PROBLEMS MAY BE MET.

(a) Foreign Exchange Control.

It is reasonably clear that so long as monetary disturbances, the uncertainty of export markets, sharply varying balances of trade, the frozen character of our sterling credits, and the dependence of Canada on United States industrial supplies, all are part of the daily experience of the Canadian economy, machinery will have to be maintained after the war's end to control most or all capital movements to and from Canada and, in particular, to regulate the use of Canada's supply of United States dollars. It would seem highly unlikely therefore, that Foreign Exchange regulations should be lifted in a period of post-war transitional readjustment, even though substantial modification would be necessary to meet the now changed objectives.

(b) Import and Export Licenses.

(1) Import Licenses: Apart from the problem of "economic warfare", where import control is directed to preventing any trade with enemy countries or enemy-controlled firms, some measure of import control may have to be maintained to prevent the dissipation of necessary foreign exchange, particularly U.S. dollars, and perhaps to encourage purchases from those countries in a debtor relation to Canada. Then, too, as a supplementary measure in aid of the domestic price ceiling certain techniques of import control may have to be maintained, particularly against a high or low price exporting nation. Finally, import controls may be used to supplement a more flexible tariff system and to prevent any serious inroads being made on growing peace-time industries that may have a clear economic value, and that soon would be absorbing some of the Canadian labour supply, although any

such policy would have to be formulated within the larger scheme of reviving international economic relations for the benefit of all nations interested in and dependent upon that kind of movement.

(2) Export Licenses: Once the problem of shipping to enemy countries or enemy-controlled firms is over, with the war, the use of export licenses will be confined almost exclusively to preventing the export of those supplies of which there is a shortage, or an impending shortage, in Canada for Canadian use. It is not likely, however, that, except for emergency supplies or special supplies dependent upon shipping conditions, export controls will be employed on a very extensive scale once a reasonable period has passed after the end of hostilities.

(c) Price Control.

The two conditions which made price control and the price ceiling necessary were the huge increases in purchasing power and the resulting ability to buy more goods and services, while, at the same time, there was a need to lessen that consumption in order to divert labour, plant and materials towards the production of war supplies; and that need to divert led to a progressive decline in the quantity of available consumer goods in many lines, all resulting in a competition among more purchasers for less goods. Thus there were two types of competitive conditions, driving prices upwards; competition between government and consumers for the same resources and facilities, and competition among consumers for a declining amount of available goods and services.

At war's end the total wage bill and general purchasing power of the Canadian people may well be higher than at any time in Canadian history. We may perhaps find a national income in excess of $7,000,000,000. At the same time, as the war effort progresses towards the outer edges of "total war", substantial shortages in consumer goods will be a commonplace. The situation, therefore, when peace comes, may very well present a huge national income -- not all of whose immense potential purchasing power is drained off by taxation, loans or savings -- paralleled by a sharp shortage in scores of items -- consumer goods items. It would be dangerous to release all price controls under these conditions. A runaway price and some kind of inflation probably would follow sudh a removal of ceilings, perhaps, throughout the whole price mechanism.

So the problem will then be to exercise a general price control, releasing the controls, however, in individual cases where the supply problem has been restored to relatively "normal" conditions. Even here it may be difficult to know at what point that "normal" condition presents itself, since the number of units produced before the war of, say, radios, automobiles and frigidaires, may in fact be considerably less than the increased purchasing power of the country could now absorb. For, in addition to current income, the consumer may now be able to cash in on wartime savings. Indeed, all of this suggests that just as it ultimately may be necessary to ration spending money in wartime Canada in order to prevent intense competition among consumers for declining supplies, so it may be necessary to limit early post-war spending which is not absorbed by reconstruction loans, taxes, and like draining-off techniques. But, clearly, degrees of price control may have to be maintained until some "equilibrium" is established between national income and consumer goods.

(d) Labour and Wage Policies.

The temptation to employers to cut wages and "lay off" employees, once war orders are a thing of the past, and the atmosphere of patriotic wartime pressures are over, will be great enough to create a state of deep unrest in labour. That temptation will have to be thwarted by the detailed preparation beforehand of schemes to handle transitional unemployment and to restrict the wholesale termination of war production. This latter will have to be tapered off slowly even if to do so may mean the continued production of planes and tanks and other supplies, for which there is no immediate military demand. Yet a certain amount of transitional unemployment is bound to take place and here the Unemployment Insurance Scheme will have to be prepared to take the lead for that readjustment period.

If a depression hits Canada, however, with all of its wage-price dislocations, a deflationary and unemployment period may set in, with wages declining. But any such deflationary process which remains unchecked by Government will cause great labour unrest and a possible mass labour protest made more vigorous through the increased power of a widening trade union movement strengthened by the war.

What should be done, then, about a labour policy for the trans-

ition period? The National War Labour Board will have become, by the end of the war, not only the arbiter of wage rates and cost-of-living bonuses, but also the centre of the Federal Conciliation Service, enforcing the Industrial Disputes Investigation Act. Then, too, there will be the powers of the Minister of Labour over strike elections and the employment service machinery of the Unemployment Insurance Commission, together, all providing techniques to help with the settlement of basic industrial disputes and the re-employment of workmen in congested areas of unemployment. One basic lack in this present machinery, however, will have to be filled before the transition period. At present there is no legislation which provides a legal basis for compelling union recognition and collective bargaining. Some such machinery may well have to be introduced if the many industrial tensions in the transition period are to be successfully overcome for surely our past experience suggests the need to give labour the power to organize and to deal collectively with employers.

As a companion piece to any developing scheme aimed at a progressive labour policy in the transition years, there should be worked out soon labour-training schemes on a comprehensive scale. The experience gained in the emergency labour-training programmes of the Department of Labour, the provincial governments and private industry itself, should provide the ground work for such schemes as may be desirable in order to fill the labour needs of growing peace-time industries. This may mean the re-training into different skills of scores of thousands of workmen and demobilized airmen and soldiers who already have had a considerable technical grounding for purposes of their armed duties. It will not be possible for every trained radio mechanic in the air force and in the signal corps to find a prosperous peace-time occupation in radio, but once having been technically trained it would be most undesirable, from a national point of view, to have such men return to the ranks of unskilled labour. Indeed, someone who once was a technician under the psychologically satisfying conditions of intensive wartime activity, is not likely to return, without serious rebellion, to a status or an occupation which does not give him some degree of similar satisfaction. Hence, it will be desirable for any labour plans for the transitional

period, to have in mind the kind of re-training that may be necessary and, at the same time, to keep in operation the technical training facilities now being developed for war industry's needs.

But fundamentally any solution to Canada's labour problem after the War must depend upon the release of the productive forces of the nation to give employment for the peace. This raises the basic question of a programme of public and private investment aimed at creating the most diversified opportunities for the achievement of "full" peace-time employment. Public works, on the most imaginative basis, the refashioning of war industries for peace production, the stimulating of the useful segments of our historic foreign trade all, together, will require the kind of planning and inspirations, of which only the national Government is capable in a Federal Canada.

(e) Agricultural Controls.

The shift from cereal production, particularly wheat, to meats, bacon, cheese, vegetables, soya beans, sugar beets,etc., for war purposes, is one of the most significant developments in agriculture, both in the United States and Canada. Doubtless the development should help to solve in part the imbalance in the Canadian agricultural economy, particularly that of Western Manitoba, Saskatchewan and certain parts of Alberta, where prairie conditions laid the basis, during the last war, for an artificially expanded wheat economy. The various Boards, such as the Dairy Products Board, Special Products Board, the Agricultural Supplies Board, etc., are slowly educating Western Canada to refinements in diversified farming and in the production of many cash-yielding supplies such as butter, bacon, cheese, vegetables, etc. By war's end it does not seem unlikely that we shall have major changes in the nature of our agricultural production, particularly evident when the value of that production is broken down into cereal and non-cereal cash returns. Then, too, these wartime agricultural controls are teaching the Government a great deal about production costs and the problems of distribution and packing. All of this experience should soon be utilized in formulating production and processing policies, which, together with the producer and the processing industries, would lay the basis for legislation looking towards long-range changes in the nature of agricultural production and processing in Canada. Mass shipments during the war of butter, cheese, bacon,

eggs, fruits, etc., will give producers, processors and the Government experience with the British market and a certain expertness in meeting the peace-time needs of that market.

It is quite likely that these various Boards and Committees in their present forms will disappear when war is over, since their primary function now is to act as purchasing agents for the British Government. But methods should be worked out to carry on the other side of their functions -- the refashioning of the methods and objectives of production in Canadian agriculture.

(f) Rationing and Allocation of Supplies.

The end of the war may find a large number of items in which shortages have been accepted for some time and where rationing has been in force to meet them. Steel, fish oils, some kinds of woollens and cottons, some types of cheese, petroleum products, many types of fish and fancy canned goods are already under or on their way towards being suggested to some kind of strict consumption control. Priorities and allocations in scores of industrial supplies have been in operation on a formal and informal basis for many months. By war's end, the problem for some of these may be even more acute. It is not unlikely, therefore, to expect that various degrees of rationing, priorities and allocation will continue in the case of some classes of foodstuffs and in many key industrial supplies. The techniques to be used will already have been well developed throughout the war and the basic problem here, as in many other controls will be how to carry on to meet the new objective of a stable transition from war to peace. Indeed, it is not impossible to imagine a condition where a new "kind" of scarcity will arise in many consumers' goods that now once more slowly make their appearance onto a market where they have not been in evidence for many seasons. So that it may be necessary to ration goods of which there is a "decreasing scarcity" -- electrical appliances and the like --(and for which there is a huge potential demand), following their gradual return to retailers' stocks from manufacturers now freed of wartime orders, and restrictions on non-essential production.

(g) Capital Assistance by Government to Industry.

Since the beginning of the war probably $700,000,000 have been poured into new plants, equipment, plant extensions, buildings and in-

cidental improvements in order to provide the facilities to make scores of war supplies which either were never before made in Canada or were produced on a relatively small scale. Those funds came from the British and Canadian governments, but for practical purposes these advances represent Canadian effort, resources and materials, since the British share is largely in terms of sterling credits, only a small part of which can be taken up at the present time.

The effect of this huge programme is to give the Canadian Government, through the Department of Munitions and Supply, control over vast quantities of machinery and equipment and over scores of new factory buildings. Up to the present time the planning of these plants from an architectural and engineering point of view, has not been carried on, very often at least, with any post-war uses in mind. That short-coming may be fatal to any plans to transform this great array of equipment for post-war uses to the common good. Such facilities might be particularly useful as devices to give employment in the transition period until private industry itself reaches some kind of peace equilibrium and is able to absorb on an increasing scale the available labour supply. Some liaison should now be worked out between the various committees engaged on post-war problems and the Department of Munitions and Supply to encourage thought to be given to the use that these plants may be put after their war purpose has been served.

In addition to assistance to private industry, where the extensions and machinery are owned by the crown, the Government's capital programme has led to the building and organization of eight or ten important industries wholly owned by the Crown, and operating with a management subject immediately to departmental control -- Munitions and Supply. In the case of optical goods, small arms, small arms ammunition, certain aircraft parts and assemblies, 25 pounders and other supplies, the organizations turning them out are wholly-owned and operated crown companies. Through these operations the Government will have gained great experience in handling regular industrial production problems and in providing the rest of industry and itself with a cost yardstick -- very useful in estimating industrial costs and price policies during the war and perhaps even after it. Most important, however, is the lesson learned that a government department can successfully operate a

production business and supervise a management who are efficient and loyal. For such an enterprise is not inhibited by any problems arising out of concern for excess capacity, heavy fixed charges in cases of over-capitalization and other matters which influence the price and cost policies of private companies working on war orders.

Finally, the whole capital assistance programme will leave the Government with a great reserve of personnel with managerial and technical experience in many fields. It would seem to be a mistake to permit these productive units with their highly-trained personnel to become disorganized and lose that teamwork training which takes so long to develop. Indeed, it might be desirable in the near future that some thought might be given to the use of such personnel for the production of peace-time goods and services, at least for the transition period. And bound up with this problem of peace-time use of Government-owned plants, is the possibility that unless satisfactory and practical plans are available at war's end for the use of these facilities, they may be disposed of at scrap prices. Foresight and preparation, based on a heightened imagination, is required to persuade the Government some day in the future that it owns and should keep a good thing. Otherwise close to a billion dollars worth of plant and equipment, and thousands of skilled workmen and experienced managers, may be forced on to private industry at a time when it may have no immediately constructive use for the equipment or the services.

V. Constitutional-Legal Problems.

The War Measures Act is the legal basis which makes it possible at the present time to control production by plants in any part of Canada, to fix or manipulate prices and wages, to settle industrial disputes of an intraprovincial character, to requisition agricultural supplies for shipment to the United Kingdom, to compel rationing and allocation of consumers' goods or industrial needs - indeed to do all those economic tasks which today reflects the economic policy of the Government in war-time.

The Federal system in Canada, based upon the British North America Act, has allocated certain powers to the Dominion and to the provinces, with the residue of powers left to the Dominion. Practically all of the economic controls now in operation would seem to be clearly within the scheme of provincial rights as set out in clause 16 of section 92 of the British North

America Act, vesting the authority over "property and civil rights" in the provinces. Export and Import control, foreign exchange regulations and certain limited authority over businesses having a national, international or inter-provincial character, and those under the Dominion Companies Act, are legitimate areas of Federal legislation. But, for the rest, were it not for the provision of the War Measures Act, these controls would today probably be ultra vires the power of the Dominion.

The War Measures Act, however, depends for its validity on a doctrine of emergency power first developed by the Judicial Committee of the Privy Council in 1882 and based upon the duty of the Federal Government to maintain "peace, order and good government", as set out in the introductory clause of the British North America Act. Moreover, the Privy Council held, in Fort Frances Pulp and Paper Company vs. The Manitoba Free Press, that The War Measures Act has only effect for that period during which the Governor-in-Council by proclamation has declared a state of war, real or apprehended to exist. Whether such a state of war, real or apprehended, exists, however, would seem to be a justiciable" matter and if the Governor-in-Council should not proclaim such a state of war to have ceased within a reasonable time after its physical conclusion, the court might very well upset many things done by the Governor-in-Council under a War Measures Act which no longer, according to the court, had a legal basis in a state of war, real or apprehended -- although very strong evidence of the absence of emergency condition would of course have to be given to the court.

Here we have a constitutional problem that affects the whole mechanism of the war-to-peace transition controls discussed above. Let us suppose at this point that the court would hold the War Measures Act, and orders passed under it, no longer to be intra vires the power of the Dominion, because a state of war, real or apprehended, or a vital emergency arising out of the war, no longer existed. But many of these controls or transitional variants of them may have to be maintained.

There would seem to be two ways of preparing for this possibility in advance. First, the patriotic pressures of wartime might be an ideal moment at which to introduce, after a Dominion-Provincial conference, a series of amendments to the British North America Act which would provide for the vesting of certain powers in the Federal Government,

under "emergency" conditions short of "a state of war". The amendment would try to cover such matters as price and wage control, agricultural supply regulations, rationing and allocation of all types of supplies, control of industrial equipment and the movement of labour, etc. Indeed, in my opinion, these amendments could be drafted in reasonably simple terms and their effect could be to give to the Dominion Parliament all the powers it now has under the War Measures Act during "a state of war". Of course, there might easily arise the problem of defining how much of a "state of emergency" must exist before these powers are properly exercised, but that problem of interpretation faces any statutory language.

The second approach might be the preparation of agreements between all the provinces and the Dominion while the war continues, to permit the Government to carry on with these controls for an indefinite period after the war, but on a voluntary basis, with the enforcement left in the hands of the provinces, who themselves would enact parallel regulations of a constitutionally valid kind. This second method is uneven and legally quite vulnerable.

But whatever method is selected, not too many months should now be allowed to pass before some attempt is made to draft legislation to be placed on the shelf, ready to be called down into operation by the Government when legal and constitutional conditions so require. Of the two methods above described, there can be no doubt that an amendment to the British North America Act that gives certain powers to the Federal Government under emergency conditions short of state of war, is the better and more realistic approach towards having legislation setting up controls in the transition period.

VI. Conclusions.

All of this has been guess-work of a kind, even if it may be excused by the flattering description of "educated guess-work". But clearly, a government should try to be prepared as much for the inevitable onrush of peace problems as it is for the impending threats of war in a world where peace among sovereign states has no permanent character.

Doubtless it will be argued that at war's end it will be difficult to keep in Federal service the senior personnel from business and the professions who now operate a great part of the machinery of our wartime economic control. These men will be anxious to turn to their

pre-war lives and enterprises, and particularly would this be the case if, in this transition period, it became evident that there was in the making something of a "boom". Even if this estimate of a loss in personnel were true, however, an answer may be found in the experience during the last year of the Foreign Exchange Control Board. After a year and a half of operation the Board has discovered that once its basic policies were made and a routine developed, the need for senior personnel became less urgent, since the kind of decisions they would have had to make increasingly became more of a routine character than matters of judgment and long experience. Intelligent juniors could easily take over.

The same may be true two years hence with the Wartime Prices and Trade Board and the members of the Wartime Industries Control Board, as well as with other temporary agencies. Meanwhile the permanent civil servant will carry on with all the wealth of his wartime experience to guide him in his judgments.

Over-riding any present concern about such details is the need to think of all these questions, at first in broad, and then in more specific terms. The war departments of every government have, as a matter of course, their plans for almost every conceivable contingency. A government looking to difficult days of peace can very well imagine some of the social and economic dangers that lie ahead. That same Government can do no less than at least consider the kind of problems it will have to face when hostilities are at an end and the kind of machinery that will be necessary to help build the bridge from war-making to peace-keeping.